



2017

ANNUAL
REPORT

2017 Financial Statements

THE LAW SOCIETY OF UPPER CANADA
2017 ANNUAL REPORT

Financial Statements

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THE LAW SOCIETY OF UPPER CANADA

2017 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Upper Canada's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating deficit of \$860,000 (2016 - \$3.8 million surplus). The 2017 budget incorporated \$4.8 million of the lawyer General Fund Balance to mitigate fee increases and also incorporated \$600,000 in funding from surplus investment income in the Errors & Omissions Insurance Fund. The 2017 budget also projected a deficit in the Paralegal General Fund of \$1 million with the use of the accumulated balance, so operating results are better than budgeted.

All the major revenue and expense categories were better than budget with the exception of reorganization related costs and, as budgeted, typically increased from the prior year. In comparing 2017 results to 2016 results, apart from departmental reorganizations, the size and nature of operations were substantially similar.

The Society's restricted funds are reporting a combined deficit of \$7.9 million in 2017 (2016 - \$2.7 million deficit). The primary factors in the performance of the restricted funds are:

- The Lawyer Compensation Fund experienced an adverse claims experience, resulting in a deficit of \$9.5 million (2016 - \$2.1 million deficit).
- The Errors & Omissions Insurance Fund is reporting a surplus of \$732,000 (2016 - \$1.2 million).
- The Capital Allocation Fund experienced a surplus of \$3.4 million (2016 - \$1.4 million) dependant on the capitalization of projects during the year.
- Amortization in the Invested in Capital and Intangible Assets Fund of \$2.4 million (2016 - \$3.1 million) was a contributor to the restricted funds deficit in the current year.

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

Annual Fees

Total annual fee revenues have increased to \$82.3 million (2016 - \$77.7 million) due to an increase in the number of licensees billed and the total annual fee per lawyer and paralegal both increasing by \$50 from 2016.

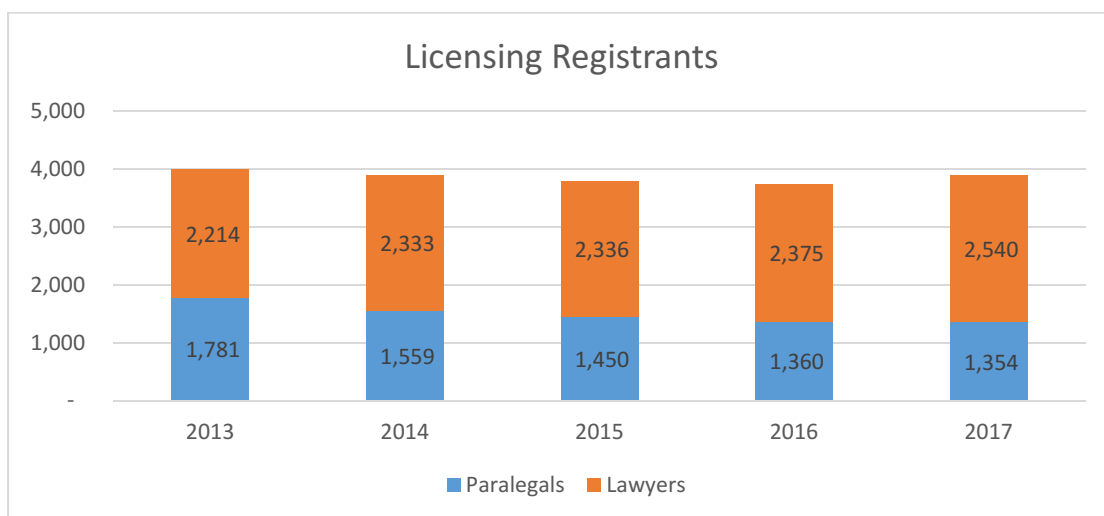
Insurance Premiums and Levies

The Errors & Omissions Insurance Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies decreased to \$103.2 million in 2017 (2016 - \$110.6 million). The base premium for professional liability insurance coverage for Ontario lawyers was \$2,950 in 2017, down \$400 from the 2016 premium. The professional liability insurance program was essentially the same, year on year.

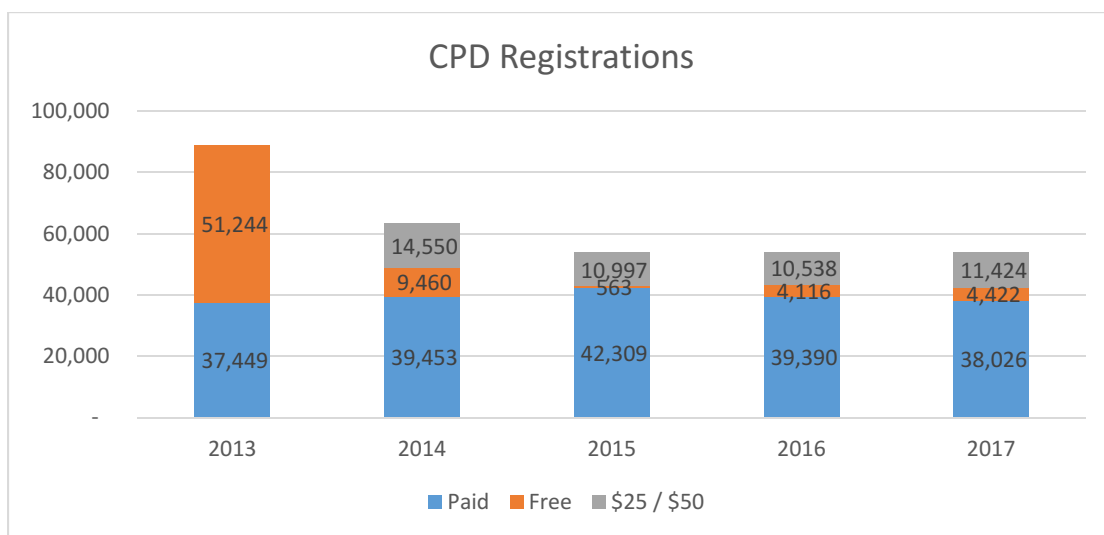
Professional Development & Competence ("PD&C")

PD&C revenue comprises licensing process and continuing professional development revenue. Total PD&C revenues are in line with the previous year at \$21.9 million (2016 - \$21.7 million).

Licensing Process revenues from lawyer (\$11.7 million) and paralegal candidates (\$2.2 million) have increased to a total of \$13.9 million (2016 - \$13.2 million), in excess of budget. The underlying tuition fees charged to candidates did not change. The annual revenues from candidates comes from all active candidates in the system, some of whom will be from a previous licensing year whose related activities, such as exam rewrites, have increased. The five year pilot Law Practice Program (LPP) which commenced in the fall of 2014, provides lawyer licensing candidates the option of either articling or completing the LPP. A comparison of licensing registrants is set out below:



Total Continuing Professional Development (“CPD”) revenues from lawyers (\$7.2 million) and paralegals (\$820,000) is less than 2016 and budget (both \$8.5 million). The shift toward online learning continues with more registrants viewing programs by live webcast or on demand. Starting in 2017, CPD is paperless for live programs and hardcopies of material are only published for select programs. Registrations are analyzed below:



Other Revenue

Other Revenue of \$7.8 million (2016 - \$8.8 million) primarily comprises income from Ontario Reports, administrative fees, monitoring and enforcement recoveries and catering. The decrease from 2016 is due to a reduction in ordered costs and a change in funding for The Action Group for Access to Justice whose mandate is still being completed.

Expenses

Professional Regulation, Tribunals and Compliance

Total regulatory expenses are relatively static at \$28.6 million (2016 - \$28.6 million) but are less than budget due to staff vacancies associated with the department's reorganization during 2017. There has been an increased use of outside counsel as a measure to counter the staff vacancies and recruiting continues. The budgeted increase in resources was primarily to assist paper and electronic data management and file processing. The processing of files through the Intake and Enforcement departments comprise a significant part of regulatory resources. Complaint trends have fluctuated in a fairly narrow band in recent years although typical investigations are requiring increased resources.

Professional Development & Competence

Total PD&C expenses have increased to \$29 million (2016 - \$27.1 million) and were nominally under budget. Staff were added for initiatives such as the implementation of the Coach & Advisor Network and other practice supports. With the high number of candidates, licensing process administrative expenses such as invigilation and facilities rental are higher than budgeted. Significant resources continue to be devoted to candidate's special needs and accommodation requirements. In the last five years, requests for accommodations have doubled for lawyers and tripled for paralegals. The movement toward online CPD program delivery and materials provision noted in the revenue discussion also provides savings in program expenses, including catering costs, course materials and venue rentals although these savings have been slightly offset by general cost increases in other areas.

Corporate Services

Corporate Services expenses, primarily comprising the Client Service Centre, Information Technology, Facilities, Finance and Human Resources, were \$25.6 million (2016 - \$21.9 million) and slightly exceeded budget with less staff vacancies, increased space costs, improved technology resources and reorganization costs.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses primarily comprises Policy, Equity, External Relations & Communications and bench expenses decreased to \$7.2 million (2016 - \$8.3 million) and were under budget. Included in Convocation, policy and outreach expenses are payments to benchers during the year. In respect of remuneration, these payments totalled \$1,036,000 (2016 - \$948,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was \$488,000 (2016 - \$506,000).

Changes in Fund Balances

General Fund

Results for the year means the lawyer General Fund has decreased from \$23.6 million to \$23.2 million. Convocation's fund balance policy requires a minimum of two months and a maximum of three months operating expenses be maintained in the lawyer General Fund balance or between \$17 million and \$26 million.

Results for the year means the paralegal General Fund has decreased by \$588,000 to \$4.5 million. Because of the relatively short history of paralegal regulation and lower balances, there is no formal fund balance policy for the paralegal General Fund.

Restricted Funds

In 2017, the lawyer Compensation Fund deficit for the year amounted to \$9.5 million reducing the Compensation Fund balance for lawyers to \$3.3 million. The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenarios (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event) or between \$13 million and \$47 million. In the 2018 budget, \$5 million will be raised to assist in restoring the balance over three fiscal periods.

In 2017, the Compensation Fund balance for paralegals increased to \$717,000 after the surplus for the year of \$120,000. Because of the relatively short history of paralegal regulation and lower balances there is no formal fund balance policy for the paralegal Compensation Fund.

LAWPRO billed the Society \$103,222,000 (2016 – \$110,617,000) for premiums during the year. The base premium for professional liability insurance coverage for Ontario lawyers was \$2,950 in 2017, down \$400 from the 2016 premium.

Balance Sheet

Investment in Subsidiaries

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of \$5 million plus contributed capital of \$30,642,000.

Portfolio Investments

Portfolio investments are shown at fair value of \$63.6 million (2016 - \$68.1 million) reduced because of a \$5 million capital transfer from the Compensation Fund portfolio to fund claim payments. Investments comprise Canadian equities (30%) and Canadian fixed income investments (70%).

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants has increased to \$27.6 million (2016 - \$23 million). The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The relatively large provision compared to much of the historical data continues to be attributable to higher claim volumes and some large alleged defalcations on the part of certain licensees. Many of these claims are still being evaluated and in

some instances related investigations are still ongoing. The lawyer Compensation Fund balance has fallen below the minimum established by the Fund Balance Management Policy. Refinancing measures have been taken in the 2018 budget to absorb the potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises \$249,000 (2016 – \$197,000) of the total Compensation Fund provision for unpaid grants.

Unclaimed Trust Funds

Unclaimed trust funds total \$5 million (2016 - \$5.1 million). These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed.

Conclusion

The Law Society's strategic plan is built on the Law Society's mission, mandate and principles for governance found in the Law Society Act. The priorities established are to:

- Lead as a professional regulator;
- Prioritize life-long competence for lawyers and paralegals;
- Enhance access to justice across Ontario;
- Engage stakeholders and the public with responsive communications and
- Increase organizational effectiveness.

The Society is in a financially sound position to implement this strategic plan, has a strategy to address the Compensation Fund claims experience and is well placed for the future.



April 26, 2018

**Independent Auditor's Report
To the Members of
The Law Society of Upper Canada**

We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2017 and the statements of revenue and expenses and change in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

THE LAW SOCIETY OF UPPER CANADA

Balance Sheet

Stated in thousands of dollars

As at December 31

	2017	2016
Assets		
Current Assets		
Cash	11,394	27,174
Short-term investments	41,870	26,706
Accounts receivable (notes 4 and 8)	10,820	10,222
Prepaid expenses	2,529	2,573
Total current assets	66,613	66,675
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	63,619	68,136
Capital assets (note 7)	9,523	8,982
Intangible assets (note 7)	1,315	729
Total Assets	176,712	180,164
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 5 and 8)	13,101	13,423
Deferred revenue	17,682	15,783
Due to LAWPRO (note 4)	6,977	7,962
Total current liabilities	37,760	37,168
Provision for unpaid grants/claims	27,623	22,994
Unclaimed trust funds (note 9)	5,037	5,121
Lease obligations	201	-
Total Liabilities	70,621	65,283
Fund Balances		
General funds		
Lawyers	23,239	23,602
Paralegals	4,477	5,065
Restricted funds (note 18)		
Compensation – lawyers	3,285	12,825
Compensation – paralegals	717	597
Errors and omissions insurance	55,716	55,584
Capital allocation	6,684	6,529
Invested in capital and intangible assets	10,838	9,711
Other	1,135	968
Total Fund Balances	106,091	114,881
Total Liabilities and Fund Balances	176,712	180,164

See accompanying notes

On behalf of Convocation

Treasurer

Chair, Audit & Finance Committee




THE LAW SOCIETY OF UPPER CANADA

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the year ended December 31

	2017	2016	2017	2016	2017	2016	2017	2016
	General Fund Lawyer		General Fund Paralegal		Restricted Funds (note 18)		Total	
Revenues								
Annual fees	52,778	52,889	4,356	4,249	25,111	20,540	82,245	77,678
Insurance premiums and levies	-	-	-	-	103,222	110,617	103,222	110,617
Professional development and competence	18,837	18,563	3,041	3,150	-	-	21,878	21,713
Investment income	626	560	70	53	1,248	1,272	1,944	1,885
Change in fair value of investments	194	470	22	44	680	1,701	896	2,215
Other (note 11)	6,593	7,254	931	834	290	673	7,814	8,761
Total revenues	79,028	79,736	8,420	8,330	130,551	134,803	217,999	222,869
Expenses								
Professional regulation, tribunals and compliance	25,662	26,167	2,907	2,478	-	-	28,569	28,645
Professional development and competence	25,873	24,800	3,156	2,343	-	-	29,029	27,143
Corporate services	22,962	19,981	2,597	1,903	-	-	25,559	21,884
Convocation, policy and outreach (note 12)	6,592	7,715	614	626	-	-	7,206	8,341
Services to members and public	6,018	5,870	471	408	-	-	6,489	6,278
Allocated to Compensation Fund	(7,807)	(7,401)	(737)	(627)	-	-	(8,544)	(8,028)
Restricted (note 18)	-	-	-	-	138,481	137,486	138,481	137,486
Total expenses	79,300	77,132	9,008	7,131	138,481	137,486	226,789	221,749
(Deficit) Surplus	(272)	2,604	(588)	1,199	(7,930)	(2,683)	(8,790)	1,120
Fund balances, beginning of year	23,602	21,407	5,065	3,866	86,214	88,488	114,881	113,761
Interfund transfers (notes 2 and 13)	(91)	(409)	-	-	91	409	-	-
Fund balances, end of year	23,239	23,602	4,477	5,065	78,375	86,214	106,091	114,881

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA

Statement of Cash Flows

Stated in thousands of dollars

For the year ended December 31

	2017	2016
Net inflow of cash related to the following activities		
Operating		
(Deficit) Surplus	(8,790)	1,120
Items not affecting cash:		
Increase in provision for unpaid grants	4,629	3,342
Amortization of capital assets	1,875	2,357
Amortization of intangible assets	526	696
Loss on disposal of capital assets	-	57
Lease obligations	201	-
	(1,559)	7,572
Net change in non-cash operating items:		
Accounts receivable	(598)	(1,927)
Prepaid expenses	44	(615)
Accounts payable and accrued liabilities	(322)	1,879
Due to LAWPRO	(985)	393
Deferred revenue	1,899	512
Fund contribution - unclaimed trusts	(84)	895
Cash (used in) from operating activities	(1,605)	8,709
Investing		
Portfolio investments - net	4,517	(2,115)
Short-term investments - net	(15,164)	(3,716)
Capital and intangible asset additions	(3,528)	(1,636)
Cash used in investing activities	(14,175)	(7,467)
Net (outflow) inflow of cash, during the year	(15,780)	1,242
Cash, beginning of year	27,174	25,932
Cash, end of year	11,394	27,174

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA

Notes to Financial Statements, December 31, 2017

Stated in whole dollars except where indicated

1. Background

The Law Society of Upper Canada (the “Society”) was founded in 1797 and incorporated in 1822 with the enactment of the Law Society Act.

The Law Society Act, section 4.1, states that it is a function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the Law Society Act, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law;
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario;
- The Society has a duty to protect the public interest;
- The Society has a duty to act in a timely, open and efficient manner;
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

At December 31, 2017, lawyers and paralegals entitled to provide legal services in Ontario numbered 52,000 and 9,000 respectively. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

These financial statements present the financial position and operations of the Society and include the General Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

Subsidiaries and Related Corporation

The Society has two wholly-owned subsidiaries: Lawyers’ Professional Indemnity Company (“LAWPRO”), and LibraryCo Inc. (“LibraryCo”) and a related corporation, the Law Society Foundation. These entities have not

been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

General Fund

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2017, the lawyer fund balance was \$23,239,000 (2016 – \$23,602,000). The paralegal fund balance was \$4,477,000 (2016 – 5,065,000).

The Society's policy is to maintain the General Fund balance at no less than two and no more than three months of General Fund budgeted expenses.

If the General Fund balance exceeds three months of budgeted General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

If the General Fund balance is less than two months of budgeted General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the General Fund balance is more than two months of budgeted General Fund expenses and less than three months of budgeted General Fund expenses, Convocation may appropriate funds from the General Fund Balance for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

Restricted Funds

Compensation Fund

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenario (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

If the Lawyer Compensation Fund balance exceeds four one-in-one-hundred-year events, Convocation shall utilize some or all of the excess for the following:

- Mitigation of the Lawyer Compensation Fund levy for the next fiscal year or;
- Annual mitigation of the Lawyer Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than a one one-in-two-hundred-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods. The Lawyer Compensation Fund balance is currently \$3.3 million compared to the minimum policy objective of approximately \$13 million. In the 2018 budget, \$5 million will be raised to assist in restoring the balance over three fiscal periods.

If the Lawyer Compensation Fund balance is more than a one one-in-two-hundred-year event and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year or;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events or;
- Leave the fund balance at its current balance for the upcoming fiscal year.

The General Fund allocates the full cost of its spot audit program, 25% of investigation expenses and 6% of discipline expenses to the Compensation Fund. In addition, administrative expenses are allocated from the General Fund in proportion to the Fund's operating budget. In 2017, the total allocated costs amounted to \$8,544,000 (2016 – \$8,028,000).

At December 31, 2017, the lawyer share of the fund balance was \$3,285,000 (2016 – \$12,825,000) and the paralegal share of the fund balance was \$717,000 (2016 – \$597,000).

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

There is a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2017 and 2016.

In 2017, \$600,000 (2016 - nil) was transferred from the E&O Fund to the lawyer General Fund as provided in the 2017 budget representing accumulated investment income, surplus to the needs of the E&O Fund.

At December 31, 2017, the E&O Fund balance was \$55,716,000 (2016 – \$55,584,000) of which \$35,642,000 (2016 – \$35,642,000) comprises the Society’s investment in LAWPRO.

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society’s capital and intangible assets. These include buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society’s capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. At December 31, 2017, the balance was \$6,684,000 (2016 – \$6,529,000).

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Society’s capital assets and intangible assets, specifically acquisitions, amortization and disposals. At December 31, 2017, the balance was \$10,838,000 (2016 – \$9,711,000), representing the net book value of the Society’s capital and intangible assets.

County Libraries Fund

The County Libraries Fund records transactions related to the Society’s support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2017 and 2016 was \$nil.

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2017, the balance was \$79,000 (2016 – \$94,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2017 was \$759,000 (2016 – \$417,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (“PLAP”) and is funded by lawyers’ fees. The PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. At December 31, 2017, the Fund balance was \$297,000 (2016 – \$457,000).

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting.

Financial instruments

The Society's financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

Asset / Liability	Measurement
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian equity pooled funds. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

There has been no change in risk exposures from the previous period.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society's investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 5 years. The Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

Market risk

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy which requires a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements.

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year end, the maximum exposure of the Society to credit risk in cash and short and long-term fixed income investments was \$95,382,000 (2016 – \$108,714,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year end, the maximum exposure of the Society to credit risk in accounts receivable was \$10,820,000 (2016 – \$10,222,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

Cash and short-term investments

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

Portfolio investments

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building and leasehold improvements	Lesser of 10 years or term of lease
Furniture, equipment and computer hardware	3 to 5 years

Intangible assets

Intangible assets comprising computer software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over three years.

Revenue recognition

Annual member fees, insurance premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Insurance premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue.

Professional development and competence revenues are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees, insurance premiums and other revenues receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

Provision for unpaid grants

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of \$150,000 for claims incurred before September 22, 2016 and \$500,000 thereafter. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants are recorded as liabilities on the balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries. Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 1.98% (2016 – 1.44%).

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

Volunteer services

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers.

Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The valuation of liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

4. Investment in Subsidiaries

Investment in the Society's subsidiaries is recorded at cost:

	2017	2016
LAWPRO	35,642,000	35,642,000
LibraryCo	100	100
Total investment in subsidiaries	35,642,100	35,642,100

LAWPRO

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5,000,000 in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of \$100 each and \$30,642,000 in capitalization funding.

Summarized balance sheet of LAWPRO:

(\$000s)	2017	2016
Total assets	743,449	730,717
Total liabilities	489,771	477,251
Total shareholder's equity	253,678	253,466
Total liabilities and shareholder's equity	743,449	730,717

Summarized statement of income of LAWPRO for the year ended December 31:

(\$000s)	2017	2016
Revenue	130,477	134,906
Expenses	129,956	123,428
Income before taxes	521	11,478
Income tax expense	(95)	2,839
Net income	616	8,639
Other comprehensive (loss) income net of tax	(404)	6,774
Comprehensive income	212	15,413

Summarized statement of cash flows of LAWPRO for the year ended December 31:

(\$000s)	2017	2016
Net cash inflow from operating activities	13,032	18,619
Net cash outflow from investing activities	(8,698)	(25,305)
Cash and cash equivalents, beginning of year	15,911	22,597
Cash and cash equivalents, end of year	20,245	15,911

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$103,222,000 (2016 – \$110,617,000) for premiums during the year. LAWPRO contributed \$185,000 primarily to a wellness program provided by the Society to its members (2016 – \$219,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in the Society’s financial statements are amounts due to LAWPRO of \$6,977,000 (2016 – \$7,962,000).

LibraryCo

LibraryCo, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association (“TLA”) and 75 are held by the Federation of Ontario Law Associations (“FOLA”). The Society may appoint up to four directors, FOLA may appoint up to three directors and TLA may appoint one director.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo:

(\$000s)	2017	2016
Total assets	794	775
Total liabilities	22	96
Total share capital and fund balances	772	679
Total liabilities, share capital and fund balances	794	775

Summarized statement of income of LibraryCo for the year ended December 31:

(\$000s)	2017	2016
Total revenue	7,822	7,667
Total expenses	7,729	7,741
Surplus (Deficit)	93	(74)

Summarized statement of cash flows of LibraryCo for the year ended December 31:

(\$000s)	2017	2016
Net cash inflow (outflow) from operating activities	(2)	(7)
Cash, beginning of year	321	328
Cash, end of year	319	321

The Society provided LibraryCo with a grant of \$7,815,000 (2016 - \$7,662,000) during the year. The Society provides administrative services to LibraryCo as well as certain other services and publications. The total amount billed by the Society for 2017 was \$358,000 (2016 - \$402,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LibraryCo of \$9,000 (2016 - \$11,000).

5. Related Corporation

The Law Society Foundation ("LSF") is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society's accounts payable (receivable) are amounts due to the LSF of \$14,000 (2016 – (\$1,000)).

6. Portfolio Investments

(\$000s)	2017	2016
Debt securities	42,118	54,833
Canadian equities	21,501	13,303
Total portfolio investments	63,619	68,136

The debt securities have effective interest rates and maturity dates as follows:

	2017	2016
Effective interest rates (%)	1.1 – 3.1	0.5 – 2.8
Maturity dates (years)	1 – 8	1 - 6

7. Capital Assets and Intangible Assets

Capital Assets (\$000s)	2017			2016
	Cost	Accumulated Amortization	Net	Net
Land and buildings	25,395	23,275	2,120	2,671
Building and leasehold improvements	27,645	20,571	7,074	6,122
Furniture, equipment and computer hardware	3,618	3,289	329	189
Total capital assets	56,658	47,135	9,523	8,982

Intangible Assets (\$000s)	2017			2016
	Cost	Accumulated Amortization	Net	Net
Computer software	7,724	6,409	1,315	729
Total intangible assets	7,724	6,409	1,315	729

8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is \$589,000 in government remittances, primarily sales taxes (2016 – \$427,000).

The accounts receivable balance comprises:

(\$000s)	2017	2016
Accounts receivable	27,295	25,165
Allowance for doubtful accounts	16,475	14,943
Accounts receivable – net	10,820	10,222

The allowance for doubtful accounts mainly relates to annual fees, monitoring and enforcement and the licensing process.

9. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$5,037,000 (2016 – \$5,121,000).

10. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2017, total funds held in trust amount to \$3,214,000 (2016 – \$4,378,000).

11. Other Revenues

Other Revenues primarily comprise income from *Ontario Reports* royalties, administrative fees, monitoring and enforcement recoveries and catering.

12. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio benchers and lay benchers during the year of \$847,000 (2016 – \$756,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was \$488,000 (2016 – \$506,000). The Treasurers' honorarium expense for the year was \$189,000 (2016 – \$192,000).

13. Interfund Transfers

During the year the following interfund transfers took place which have been approved by Convocation:

- \$3,528,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;
- \$600,000 from the E&O Fund to the lawyer General Fund as provided in the 2017 budget representing accumulated investment income, surplus to the needs of the E&O Fund;
- \$100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2017 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$342,000 from the lawyer General Fund to the Special Projects Fund;
- \$259,000 from the lawyer General Fund to the Capital Allocation Fund;
- \$10,000 from the County Libraries Fund to the lawyer General Fund.

14. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elects to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2017 amounted to \$2,629,000 (2016 – \$2,572,000).

15. Commitments

The Society is committed to monthly lease payments for basis and additional rent for property under leases having various terms up to February 2028. Aggregate minimum annual payments to the expiry of the leases are approximately as follows:

2018	\$1,785,000
2019	\$2,189,000
2020	\$2,220,000
2021	\$2,348,000
2022	\$2,464,000
Thereafter	\$14,385,000
Total	<u>\$25,391,000</u>

In 2016, Convocation approved the Society's support for the Law Commission of Ontario's mandate for a third five year period (2017 - 2021). The Society's contribution will be \$148,000 in 2018, increasing by 2% per annum for the next three years.

Canadian Legal Information Institute ("CanLII") is a not-for-profit organization established by the Federation of Law Societies to provide access to judicial decisions and legislative documents on the internet. Lexum Informatique Juridique Inc. is a software company that operates online information delivery products, primarily for CanLII. CanLII purchased all the shares of Lexum in February 2018. In December 2017, Convocation approved the Society's support of this transaction. The Society contributed \$878,000 to a subordinated

syndicated loan with all the other Canadian law societies as part of the funding of this purchase in February 2018. This loan has an annual interest rate of 4.74%, compounded semi-annually and will mature in full five years from the date of closing.

16. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

17. Comparative figures

Certain of the prior year balances have been reclassified to conform to the current year presentation.

18. Restricted Funds

A schedule of Restricted Funds is set out below.

		2017							2016
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
	Lawyer	Paralegal							
Fund balances, beginning of year	12,825	597	55,584	6,529	9,711	-	968	86,214	88,488
Revenues									
Annual fees	11,656	851	-	4,779	-	7,825	-	25,111	20,540
Insurance premiums and levies	-	-	103,222	-	-	-	-	103,222	110,617
Investment income	727	81	440	-	-	-	-	1,248	1,272
Change in fair value of investments	372	41	267	-	-	-	-	680	1,701
Other	178	-	-	112	-	-	-	290	673
Total revenues	12,933	973	103,929	4,891	-	7,825	-	130,551	134,803
Expenses									
Allocated expenses	7,807	737	-	-	-	-	-	8,544	8,028
Direct expenses	14,666	116	103,197	1,467	2,401	7,815	275	129,937	129,458
Total expenses	22,473	853	103,197	1,467	2,401	7,815	275	138,481	137,486
(Deficit) Surplus	(9,540)	120	732	3,424	(2,401)	10	(275)	(7,930)	(2,683)
Interfund transfers	-	-	(600)	(3,269)	3,528	(10)	442	91	409
Fund balances, end of year	3,285	717	55,716	6,684	10,838	-	1,135	78,375	86,214

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